

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EUR-12 AF-10 SAA-01 SES-02 SP-02
ICA-11 AID-05 EB-08 NSC-05 TRSE-00 SS-15 STR-07
OMB-01 CEA-01 COME-00 DOE-15 SOE-02 SSM-03
CIAE-00 DODE-00 PM-05 H-01 INR-10 L-03 NSAE-00
PA-01 /131 W

-----031885 011326Z /46

R 011145Z AUG 78
FM AMEMBASSY KUWAIT
TO SECSTATE WASHDC 1523
INFO AMEMBASSY ABU DHABI
AMEMBASSY AMMAN
USINT BAGHDAD
AMEMBASSY CAIRO
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KHARTOUM
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
USLO RIYADH
AMEMBASSY SANA
AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 4328

E.O. 11652: GDS
TAGS: EAID, YS, PDRY
SUBJ: NUANCED "CUT-OFF" IN ARAB AID TO SOUTH YEMEN

REF: (A) JULY 13, 1978 ECONOMIC INTELLIGENCE WEEKLY REVIEW,
(B) KUWAIT 4217 (NOTAL), (C) KUWAIT 4193 (NOTAL), (D) KUWAIT
4058 (NOTAL).

1. SUMMARY. DESPITE JULY 2 ARAB LEAGUE "BOYCOTT" OF SOUTH YEMEN,
ALLEGED CUTOFF IN AID BY KUWAIT AND KUWAIT-BASED INSTITUTIONS
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TO PDRY HAS ONLY BEEN PARTIAL. KUWAIT'S CENTRAL BANK TELLS US
THAT THERE HAS BEEN NO INTERRUPTION OF BANKING RELATIONS WITH
ADEN. THE KUWAIT-BASED ARAB FUND IS NOT ACTIVELY CONSIDERING
ANY NEW ASSISTANCE TO PDRY, BUT THIS IS DUE TO A GENERAL
SLOW-DOWN OF ACTIVITY, NOT BECAUSE OF ANY ACTION AGAINST PDRY
PER SE. KUWAIT FUND SOURCES DO NOT BELIEVE PAY-OUTS WILL BE
STOPPED ON EXISTING LOANS TO PDRY, AND IT MAY BE SOME TIME

BEFORE FUND HAS TO CONSIDER NEW LOANS TO PDRY. ONLY SPECIFIC HALT IN AID TO PDRY WE COULD FIND WAS CUT IN KUWAITI EDUCATION AND HEALTH ASSISTANCE FROM APPROXIMATELY \$9 MILLION TO \$1.5 MILLION FOR FY 1979. CALL BY PDRY'S FINANCE MINISTER ON KUWAIT'S AMIR JULY 30 INDICATES AT A MINIMUM THAT ECONOMIC/FINANCIAL DISCUSSIONS BETWEEN THE TWO COUNTRIES CONTINUE.
END SUMMARY.

2. ARTICLE IN REF A, "SOUTH YEMEN: CUTOFF IN ARAB AID," WHILE HIGHLY USEFUL AND APPRECIATED, GIVES IMPRESSION THAT CUTOFF IN ARAB AID TO PDRY HAS BEEN MORE DRASTIC THEN WE BELIEVE HAS BEEN THE CASE AS FAR AS KUWAIT IS CONCERNED. STATUS OF AID EITHER PROVIDED BY KUWAIT OR THROUGH KUWAIT-BASED INTER-ARAB AID INSTITUTIONS SINCE JULY 2 ARAB LEAGUE RESOLUTION "FREEZING" RELATIONS WITH PDRY IS AS FOLLOWS.

3. EMIGRANT REMITTANCES TO PDRY. ARTICLE STATES THAT "SAUDIS ARE MOVING IN CONCERT WITH KUWAIT AND THE UAE TO BLOCK TRANSFER TO WORKER REMITTANCES TO SOUTH YEMEN," WHICH "AMOUNTED TO ONE FOURTH OF SOUTH YEMEN'S GNP IN 1976." IF CUTOFF WAS IN FORCE HERE, FIRST ORGANIZATION TO KNOW WOULD BE KUWAIT'S CENTRAL BANK. QUERIED BY US ON SUBJECT JULY 26, CENTRAL BANK'S KNOWLEDGEABLE DEPUTY GOVERNOR EXPRESSED SURPRISE, SAYING THAT HE KNEW OF NO STOPPAGE OF ANY KIND IN BANK RELATIOS WITH ADEN. AS FAR AS HE WAS CONCERNED, TRANSFERS, TELEXES, ETC. WITH ADEN WERE ON A "BUSINESS AS USUAL BASIS."
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4. ARAB FUND AID TO SOUTH YEMEN. ARTICLE TERMS KUWAIT-BASED ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT AS "LARGE CONTRIBUTOR" OF ASSISTANCE TO PDRY. SINCE ITS ESTABLISHMENT, ARAB FUND HAS APPROVED LOANS TOTALLING APPROXIMATELY \$26 MILLION (7.1 MILLION KUWAIT DINARS --KD) TO FINANCE TWO PROJECTS IN SOUTH YEMEN -- \$14.3 MILLION (OR 3.95 MILLION KD) FOR ADEN PORT REHABILITATION AND \$11.7 MILLION (OR 3.2 MILLION KD) FOR FISH PROCESSING FACILITIES IN MUKALLA. EARLIER THIS YEAR FUND WAS CONSIDERING FINANCING TWO ADDITIONAL PROJECTS, APPROXIMATELY \$37 MILLION (10 MILLION KD) FOR ELECTRICITY GENERATION IN THE WADI HADRAMAWT AND \$6.6 MILLION (1.8 MILLION KD) FOR AGRICULTURAL DEVELOPMENT IN WADI TURBAN. SENIOR ARAB FUND OFFICIAL TOLD ECON CHIEF JULY 26 THAT DESPITE JULY 2 ARAB LEAGUE DECISION, PAYMENTS FOR THE TWO ALREADY APPROVED PROJECTS CONTINUE; IN FACT, SOME PAYMENTS ON ONE WERE MADE ONLY A FEW DAYS AGO. HE COMMENTED THAT, GIVEN THE FACT THAT

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ALL ARAB COUNTRIES ARE MEMBERS OF THE ARAB FUND, IT WOULD
BE DIFFICULT TO OBTAIN THEIR AGREEMENT TO STOP PAYMENTS FOR
PROJECTS ALREADY APPROVED. CONSIDERATION OF THE TWO ADDITIONAL
PROJECTS IS SUSPENDED, NOT BECAUSE OF ANY SPECIFIC POLICY
AGAINST SOUTH YEMEN, BUT BECAUSE ALL NEW COMMITMENTS BY THE
ARAB FUND ARE IN SUSPENSE AND FEW ARE LIKELY TO BE APPROVED BEFORE
CONSIDERATION OF AN INCREASE OF THE FUND'S CAPITAL AT THE
NEXT ANNUAL MEETING IN APRIL, 1979.

5. KUWAITI ASSISTANCE. DIRECT GOVERNMENT OF KUWAIT ASSISTANCE
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TO SOUTH YEMEN IS CHanneled THROUGH TWO ORGANIZATIONS, THE
KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT (FOR MAJOR PROJECTS),
AND THE GENERAL AUTHORITY FOR THE SOUTH AND THE ARABIAN GULF
(FOR "HUMANITARIAN ASSISTANCE," DEFINED AS ASSISTANCE IN THE

CONSTRUCTION AND OPERATION OF SCHOOLS AND HOSPITALS.)

(A) KUWAIT FUND. SITUATION REGARDING KUWAIT FUND ASSISTANCE IN MURKY. SINCE 1962 KUWAIT FUND HAS APPROVED LOANS TO SOUTH YEMEN TALLING APPROXIMATELY \$43 MILLION (11.73 MILLION KD). MOST RECENT WAS APPROXIMATELY \$10 MILLION (2.7 MILLION KD) FOR MUKALLA FISHERIES PROJECT, SIGNED NOVEMBER 22, 1976 IN CONJUNCTION WITH THE ARAB FUND. THERE IS ONLY ONE KUWAIT FUND PROJECT FOR SOUTH YEMEN PRESENTLY UNDER CONSIDERATION, APPROXIMATELY \$9 MILLION (2.5 MILLION KD) FOR PARTIAL FINANCING FOR AN AIRPORT AT RIYAN. LONG TIME FUND OFFICIAL (HIMSELF A NORTH YEMENI) DEALING WITH YEMEN MATTERS TOLD US THAT FUND'S DEALINGS WITH BOTH YEMENS TOOK A GREAT DEAL OF TIME AND THAT PROCESS LEADING TO FINAL NEW PROJECT APPROVAL WAS VERY SLOW. THIS BEING THE CASE, THERE WAS NOT EVEN A NEED FOR ANY FORMAL "FREEZE" ON CONSIDERATION OF NEW PROJECTS NOW, AND HE KNEW OF NONE. AS FOR EXISTING PROJECTS, HE FELT THAT IT WOULD BE DIFFICULT TO STOP DISBURSEMENT OF FUNDS ALREADY LONG COMMITTED UNDER SIGNED LOAN AGREEMENTS.

(B) GENERAL AUTHORITY FOR THE SOUTH AND ARABIAN GULF. THEIS KUWAITI ORGANIZATION WAS SET UP IN 1963 TO CHANNEL ASSISTANCE TO BAHRAIN, THE THEN SEPARATE EMIRATES OF WHAT IS NOW THE UNITED ARAB EMIRATES, OMAN AND THE TWO YEMENS. THE UAE WAS DROPPED FROM THE LIST UPON ITS INDEPENDENCE AND AID TO SOUTHERN SUDAN WAS ADDED IN 1973. OVER PAST YET YEARS. THE AUTHORITY HAS BUDGETED ANNUALLY ROUGHLY \$9 MILLION (2.4 MILLION KD) FOR ASSISTANCE TO SOUTH YEMEN. OF THIS, ABOUT \$7.5 MILLION (2 MILLION KD) PER YEAR WENT FOR BUILDING OF SCHOOLS
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AND HOSPITALS AND \$1.5 MILLION (400,000 KD) FOR THE PAYMENT OF SALARIES OF 100 TEACHERS, 10 DOCTORS AND MISCELLANEOUS TECHNICIANS, ENGINEERS AND ADMINISTRATORS IN SOUTHERN YEMEN. (THE AUTHORITY MAINTAINS A SMALL OFFICE IN ADEN.) BECAUSE OF THE JULY 2 ARAB LEAGUE DECISION, THE AUTHORITY'S DIRECTOR TOLD US, THE USUAL ROUGHLY \$7.5 MILLION FOR CONSTRUCTION HAS BEEN DROPPED FROM THE BUDGET FOR FISCAL 1979 (JULY 1, 1978 - JUNE 30, 1979). HOWEVER, THE \$1.5 MILLION FOR TEACHERS, DOCTORS, AND ADMINISTRATIVE OVERHEAD WILL CONTINUE, AS THIS COMES UNDER THE EXCEPTION FOR "HUMANITARIAN" ASSISTANCE DECIDED UPON BY THE GOVERNMENT OF KUWAIT.

6. PRESS REPORTS THAT PDYR FINANCE MINISTER, FADIL MUHSIN ABDULLAH, CALLED ON KUWAIT'S AMIR JULY 30 AND LEFT KUWAIT FOR LIBYA JULY 31. WE ASSUME THAT HE WAS ASKING FOR ASSISTANCE.

7. COMMENT: AS DEPARTMENT IS AWARE, GOVERNMENT OF KUWAIT HAS FOR MANY YEARS ARGUED THAT THE CARROT WOULD BE MORE EFFECTIVE THAN THE STICK IN WEANING PDYR BACK TO TRUE ARABISM AND

MODERATION. AS A RESULT OF THE JULY 2 ARAB LEAGUE DECISION
AGAINST PDRY, IT HAS MOVED AWAY FROM THE CARROT, BUT ONLY
GOTTEN AS FAR AS THE TWIG. WE DOUBT THAT GOK WOULD EVER GO SO
FAR AS BLOCKING BANK TRANSFERS TO ADEN, SINCE A CARDINAL POLICY
FOR THIS MERCHANT CITY-STATE HAS ALWAYS BEEN FREE MOVEMENT OF
CAPITAL INTO AND OUT OF THE COUNTRY.
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